

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GENERAL ADJUSTMENTS IN	)	
ELECTRIC RATES OF	)	CASE NO. 8429
KENTUCKY POWER COMPANY	)	

O R D E R

On September 14, 1982, the Commission conducted a limited rehearing on three issues raised in the petition for rehearing of Kentucky Power Company ("Kentucky Power") dated July 8, 1982.

After further consideration of the evidence of record herein the Commission is of the opinion and finds as follows:

Investment in Franklin Realty

Kentucky Power's witness, Mr. Coulter R. Boyle, III, Accounting Manager and Assistant Treasurer, testified at the rehearing that the record did not contain the specific dates on which the \$171,167 of property held in the name of Franklin Realty was placed into service although all of this property was actually transferred from other investments to plant in service in July and August 1982. The record reflects that all of the property was in service prior to 1979.

Kentucky Power has reexamined its policies regarding transfer of property from Franklin Realty to Kentucky Power and

will prospectively transfer property to Kentucky Power whenever specific plans exist for the utilization of the property. The original plan for the \$171,167 of property which was held in the name of Franklin Realty was to classify the property as plant in service upon retirement of the remaining debt outstanding for the purchase of the property. This accounting treatment is clearly in violation of the Uniform System of Accounts prescribed by this Commission which requires classification of property as utility plant in service upon the initial use of the property to provide service. If the property had been properly classified the Commission would have included this property in determining the net investment rate base in this case. Therefore, the Commission will include as a part of the net investment rate base herein the property held in the name of Franklin Realty which was actually in service at the end of the test period.

#### Revaluation of Coal Inventory

The Commission allowed Kentucky Power to present additional evidence on rehearing in support of its position that the entire 60-day coal inventory should be revalued at the current price and that the practice of the Commission in Kentucky Power's last rate case should be followed in this case. Kentucky Power presented no new arguments on this issue but maintained its original position that the additional capital required for coal inventory exceeds the amount granted by the Commission because of the increasing price of coal.

The Commission recognizes that the price per ton of coal has increased since the end of the test period. However, in allowing the additional capital based on the additional fuel inventory required to bring the inventory to a 60-day supply the Commission did not intend to allow capital that would be required at a future time. For example, the Commission generally does not allow adjustments to other materials and supplies, plant in service or construction work in progress.

The objective of the Commission in determining a test year end rate base is to establish the value of investment in utility property devoted to providing service at a specific point in time. In determining the overall revenue requirements of a utility the Commission allows a return on the value of investment in utility property. Any changes in capitalization or rate base must be evaluated to determine the impact on operating revenues and expenses. In establishing the net investment rate base, capitalization, and the adjusted level of operating revenues and expenses, the Commission must develop a proper matching of earnings and rate base. This Commission recognizes the historical 12-month period operations adjusted for known and measurable changes occurring during and subsequent to the test year and arrives at a pro forma statement of operations which coincides with the test year end rate base and capitalization. The value of coal inventory fluctuates widely due to the supply on hand at a given point in time and the variable price of coal. To adjust the value of fuel inventory

to a current price would in effect be updating the test year and would provide a mismatch of earnings, rate base and capitalization.

The Commission has not made adjustments in this proceeding to cover future operating conditions which are not known and measurable. The Commission did, however, allow the additional fuel supply to be priced at the March 1982 cost per ton.

In most electric utility rate cases the Commission makes no adjustment to fuel inventory. However, in this case the Commission recognized that the level of fuel inventory was lower than the level required to provide reliable service. Therefore, an adjustment was made to increase the test year end value of fuel inventory for the additional supply required to provide a 60-day supply.

The Commission is of the opinion that its prior policy in major electric utility cases of making no adjustment to fuel inventory is inappropriate because of the extremely volatile nature of the fuel supply. It is not fair to the utility to establish the rate base using an exceptionally low level of inventory at the end of the test period, nor is it fair to the consumer to use an exceptionally high level. Therefore, the Commission will review the level and value of fuel inventory on a case-by-case basis and determine whether an adjustment is appropriate. In adjusting the fuel inventory the Commission will use the weighted average cost per ton of

coal at the end of the test period to adjust the cost of the additional supply required or the reduction in cost required.

The Commission will make no further adjustment in this case to the value of inventory for rate-making purposes.

Production Plant Maintenance Costs

On the issue of production plant maintenance costs, Kentucky Power offered no proof that the record contains sufficient information to justify the inclusion of the \$10.4 million estimated production plant maintenance cost. This estimated cost is not sufficiently known and measurable and therefore should not be included for rate-making purposes. However, the Commission will modify its original Order to the extent that it will include for rate-making purposes the \$10,167,615 in actual production plant maintenance costs incurred during the test period. This adjustment will increase pro forma operation and maintenance expenses by \$803,212 over the amount allowed in the June 15, 1982, Order in this case.

The net effect of the adjustments allowed herein, and the adjustment to AFUDC contained in the Order granting a limited rehearing, will increase the total amount granted in this case by \$919,964. The adjustments to the rates in Appendix A are designed to produce the additional revenue allowed.

IT IS THEREFORE ORDERED that the first paragraph on page 24 of the June 15, 1982, Order be and it hereby is amended to read as follows:

With the capital structure and debt costs approved in this Order, the range of returns on equity of 14.5 percent to 16 percent provides before tax interest coverage ratios of approximately 2.45 times to 2.64 times. These ratios are within the range acceptable for A-rated bonds. Therefore, the Commission is of the opinion that a return on equity in this range will maintain Kentucky Power's financial integrity and permit it to attract capital at reasonable costs.

IT IS FURTHER ORDERED that the adjustments to the rates in Appendix A reflect the additional revenues of \$919,964 allowed herein based on the adjustments to investment in Franklin Realty, AFUDC and production plant maintenance costs and in consideration of applicable adjustments for state and federal income taxes.

IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that all other provisions of the Commission's June 15, 1982, Order be and they hereby are affirmed.

Done at Frankfort, Kentucky, this 13th day of October, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohz  
Chairman

Katherine Randall  
Vice Chairman

John Carrigan  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 8429 DATED OCTOBER 13, 1982

The following rates and charges are prescribed for the customers in the area served by the Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

TARIFF R. S.  
(Residential Service)

RATE

Service Charge . . . . .	\$ 3.35 per month
Energy Charge	
First 500 kwhrs per month . . . . .	4.167 ¢ per kwhr
Next 1000 kwhrs per month . . . . .	3.667 ¢ per kwhr
Over 1500 kwhrs per month . . . . .	3.468 ¢ per kwhr

TARIFF Q. P.  
(Quantity Power)

RATE

Service Charge . . . . .	\$335.00 per month
Demand Charge . . . . .	\$ 5.4615 per kw
Energy Charge . . . . .	1.783 ¢ per kwhr
Reactive Demand Charge:	
For each kilovar of lagging reactive demand in excess of 50 percent of the kw of monthly billing demand . . . . .	\$ .41 per kvar